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July 29, 2003

Audit Number 02034

Mr. John Martin, Airport Director
San Francisco Airport Commission
San Francisco International Airport
San Francisco, CA 94128

DOCUMENTS DEPT.

Subject: Review of Audit Reports for Avis Rent A Car Systems, Inc.
Reporting Period: January 1, 1999, through December 31, 2001
Rent Paid: \$18,899,116

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Dear Mr. Martin:

The Airport Commission (Airport) requested Avis Rent A Car System, Inc. (Avis) to have an annual independent audit conducted of Avis's San Francisco International Airport location revenues. Avis submitted audit reports to the Airport for the calendar years 1999 through 2001. To assess whether we should conduct a separate concession audit of Avis, we attempted to perform steps to assure us that the audits were adequate. However, Avis's independent auditor, Deloitte & Touche LLP, would not give us access to information that would enable us to evaluate its procedures regarding the audits it conducted for 1999 and 2000. For 2001, Cendant Corporate Audit performed the audit. Cendant Corporate Audit is the internal audit function of Cendant Corporation, which is Avis's parent company. Cendant Corporate Audit (Cendant) cooperated with our request, and provided information that allowed us to evaluate its audit procedures. With the concurrence of Airport staff, for 1999 and 2000 we only compared Avis's audited gross revenues to the revenues Avis reported to the Airport. For 2001, we evaluated the adequacy of Cendant's audit procedures to determine whether we could rely on its report. We also determined whether Avis has any outstanding rent payments due to the Airport during the review period.

We reviewed the audit reports submitted to the Airport for the calendar years 1999 through 2001. Avis reported \$176,196,546 in gross revenues and paid \$18,899,116 in rent to the Airport for the three-year period. For 1999 and 2000, we found that the revenues Avis reported to the Airport agreed, in all material respects, with the audited revenues. For 2001, we found that Cendant's audit procedures were adequate to assure the Airport that Avis's revenues were, in all material respects, fairly reported. We also found that Avis did not have any outstanding payments due to the Airport for the review period.

For 2001, Cendant compared its audited gross revenues with the gross revenues Avis reported to the Airport, and Cendant found that Avis over-reported gross revenues of \$1,464,747. According to Cendant's staff, in Avis's monthly report to the Airport, Avis inappropriately included insurance revenues totaling \$1,862,530 and inappropriately excluded volume discounts totaling \$397,783, for a net over-reporting of \$1,464,747 in gross revenues. The lease specifies that gross revenues exclude insurance revenues. In addition, the lease specified that gross

revenues cannot be reduced for credits of any kind, and volume discounts are therefore an unallowable credit. However, the over-reported gross revenues did not affect the rent Avis paid for the eight months in 2001 when Avis paid the monthly minimum annual guarantee. The over-reported gross revenues only affected the rent payments for September, October, and December 2001 when the Airport abated the minimum annual guarantee and for August 2001 when the percentage rent exceeded the monthly minimum annual guarantee. For the months that the Airport abated the minimum annual guarantee, the Airport issued credits to Avis on December 12, 2001 and March 19, 2002 totaling \$588,064. For these months, when Avis's rent was based on 10 percent of its gross revenues, Avis overpaid rent of \$48,951. The table below shows the overpaid rent for these months:

Table 1
Over-Reported Gross Revenues and Overpaid Rent
2001

	Reported Revenues	Audited Revenues	Rent Paid	Computed Rent	Overpaid Rent	Credit Issued	Net Overpaid Rent
August	\$5,456,164	\$5,221,785	\$545,616	\$522,179	\$23,437	\$0	\$23,437
September	3,212,418	3,086,563	484,833	308,656	176,177	(163,591)	12,586
October	2,924,834	2,865,796	484,833	286,580	198,253	(192,350)	5,903
December	2,527,100	2,456,852	484,833	245,685	239,148	(232,123)	7,025
Total	\$14,120,516	\$13,630,996	\$2,000,115	\$1,363,100	\$637,015	(\$588,064)	\$48,951

In addition, the Airport owes Avis a rent credit for the nine months in 2001 when Avis was subject to the minimum annual guarantee. During those months, Avis paid the Airport a total of \$4,424,282, which consisted of \$3,878,666 during the eight months when Avis paid the monthly minimum annual guarantee and \$545,616 for the month of August that Avis paid the percentage rent because it exceeded the monthly minimum annual guarantee. The August payment included an overpayment of \$23,437 caused by Avis's over-reported gross revenues as discussed above. After deducting this \$23,437 overpayment from the \$4,424,282 that Avis had paid the Airport for these nine months, Avis's adjusted rent paid is \$4,400,845. Because the rent due is \$4,363,497, which is the adjusted minimum annual guarantee, Avis is due a credit of \$37,348.

We recommend that the Airport credit Avis \$86,299 which consists of the overpaid rent of \$48,951 and the excess rent paid of \$37,348.

As a result of this review, we are not conducting a separate concession audit of Avis. Please call me at (415) 554-7656 or Edwin De Jesus at (415) 554-7656 if we can be of further assistance.

Sincerely,


Ben Carlick
Audit Manager

cc: David Pfeiffer, Airport's Associate Deputy Director of Revenue Development
Dave Dunn, Airport's Rental Car Center Manager
Lilia Avendano, Airport Fiscal Officer
Lorraine Tallarico, Regional Director of Property, Avis Rent A Car Systems, Inc.
Robert Bouta, Sr. Vice President, Avis Rent A Car Systems, Inc.
Noriaki Hirasuna, Controller's Audits Director

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